Price Control and Business [Cowles Commission for Research in Economics, Monograph No. 9] by GEORGE KATONA
Review by: Walter S. Salant
Social Research, Vol. 13, No. 2 (JUNE 1946), pp. 241-243
Published by: The New School
Stable URL: http://www.jstor.org/stable/40982139

returns. The relations between investment and saving could be treated as a part of "social accounting," and even an analysis of the widely misunderstood process of formation of capital and its relation to saving would not be out of place. True, some of these topics could be said to belong to "economic physiology" (the way the economic system works) rather than to economic anatomy. But even as the book stands it was not possible to maintain this sharp distinction, as is evident, for example, in the chapters that deal with "Capital Goods and the Causes of Unemployment" and "The Spreading of Unemployment."

HANS NEISSER

KATONA, GEORGE. *Price Control and Business.* [Cowles Commission for Research in Economics, Monograph No. 9.] Bloomington: Principia Press. 1945. xi & 246 pp. $3.

This monograph contains the results of field studies conducted among producers and distributors of a few important consumer goods in the Chicago area between the spring of 1942, after institution of the General Maximum Price Regulation, and the spring of 1944. The investigations consisted of 676 intensive interviews with 528 firms in the fields of apparel and house furnishings, food, laundries, and drugs and cosmetics. They were designed to elicit information on both the objective and the subjective reactions of the interviewed firms to economic developments affecting them, especially price control.

The first of the sections presenting the findings (Part Two) describes the pricing procedures that were adopted by business—such as legal and illegal direct price increases, indirect price increases, reduction in markdowns, upgrading. One finding of interest is that a substantial part of the price increases that followed the General Maximum Price Regulation resulted, at least in the field of apparel and house furnishings, from raising prices to the ceilings. Also significant, in view of the claim often made by the industry that consumers no longer want low-cost clothing, is the author's failure to find any conclusive evidence that upgrading resulted exclusively from voluntary action of consumers, except in the fields of men's suits and shoes. On the question of direct violations the interviewers obtained more information than they themselves expected, because, according to the author, merchants were eager to relate what they considered their "justification" for non-compliance.

The description of pricing procedures in Part Two is followed in Part Three by a systematic analysis of the factors favoring and imped-

ing the success of control: the type of regulation, the presence or absence of rationing, the market structure, changes in supply-demand conditions, volume and profits, and changes in expectations, atmosphere, and attitudes of businessmen. This section of the book is more interesting reading. After a useful summary of the relative merits and drawbacks of the base-date freeze, formula regulations, and dollar-and-cent ceilings, the author concludes that on the whole the first is the least and the last is the most effective type of regulation, but that none of the three types is clearly superior to the others when criteria other than effectiveness are also taken into account. The interviewers were told by most businessmen in the fields of apparel and house furnishings that price control had impeded production only in a few exceptional instances, although many said that the line of products produced was affected by profit relationships. In the food field, on the other hand, businessmen thought that higher farm prices would have resulted in greater production; it is noteworthy that this judgment came from persons having no direct experience with the physical difficulties of wartime farm production.

A conclusion that is most significant, regarding the success of price control, is the author's strong confirmation of what we expect on a priori grounds and from general experience: that expectations of shortages and price rises promoted non-compliance and increased demand. He finds that this was an important factor making for a deterioration of price control between the autumn of 1942 and the spring and summer of 1943, when the situation was brought under control by the President's "Hold-the-Line" order, by the establishment of dollar-and-cent ceilings for groceries and meat, by the subsidized retail price reductions, by veto of the anti-subsidy bill and by other evidences of renewed firmness on the price front. Nothing invites failure of price control so much as belief that prices will be permitted to rise, whether this attitude be caused by weakness on the part of the control authorities or by the possibility that control will be terminated.

In his chapter on "Businessmen's Attitudes" the author concludes that "The statement frequently made that 'American business is opposed to price control' appears to be unfounded." Almost 78 percent of the merchants who expressed an opinion said that on the whole OPA did a good job, or did more good than harm. Of those expressing opinions about enforcement, however, only one-third believed that it was adequate. In his final chapter, "Toward an Appraisal of Price Control," the author concludes that price control

was effective in keeping down the prices of consumer goods, in other words, without it they would have risen much more; that control could have been much more effective, since inept government policies, hostile business attitudes, and expectation of price increases, all of which could have been changed at least to some degree, were the primary cause of circumvention; and finally that the cost of the results obtained was not unduly high, in terms of impairment of production and morale.

Although the first half of this book, the report of findings, is not very startling in nature, Part Three, where the author undertakes an analysis of the results, shows care and discrimination in interpretation. The only important analytical statement that might be questioned is his contention that the most important single factor contributing to the relative success of the fight against inflation was that the rate of consumer expenditures advanced much less than consumer incomes. There is unfortunately no way of telling whether the restricted level of consumer expenditure is a cause or an effect of success in controlling prices. Regardless of whether or not consumers exercise restraint, they cannot buy more than the quantities of goods and services available to them, and if prices are determined by a control which is successful for other reasons, their total expenditure is also determined.

Unfortunately, I cannot persuade myself that the conscientious efforts of the author have added much to our present knowledge of price control. The volume should probably be regarded rather as an experiment in the application of a general research technique. From this point of view, the reviewer suspects that the method of intensive interviewing is not likely to yield much information on objective behavior that could not be better obtained by other means, but that it can give valuable information concerning attitudes.

WALTER S. SALANT

Washington, D. C.

HOOVER, CALVIN B. *International Trade and Domestic Employment.* New York: McGraw-Hill. 1945. 177 pp. $1.75.

The advantages of foreign trade and related financial problems are discussed by Dr. Hoover on traditional lines, without any attempt to appraise the more refined conceptual apparatus of the foreign-trade multiplier, which has been developed recently for dealing with the relation between foreign trade and employment. Designed as it is for the general reader who is interested in economics, rather than